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PVR

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,896	N.A.
	REUTERS CODE
S&P CNX: 2,693	N.A.

7 December 2005

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IPO Price Band: Rs200-240

Issue Details:

Issue Opens: 8 December 2005
Issue Closes: 14 December 2005

Issue Size: 7.7m shares

Price Band: Rs200-240

Post Issue O/S Shares (m)	22.9
Market Cap. (Rs b)	
(At the upper band)	5.5

1HFY06 Financials (Rs M)

Sales	543.2
EBITDA	98.1
PAT	38.7

EXPANSION PLANS (NOS)

	SCREENS	SEATS
FY05	39	8,540
FY06E	76	17,822
FY07E	112	28,111
FY08E	121	30,611

Source: Company RHP

PVR, promoted by Mr. Ajay Bijli, Priya Exhibitors Private Ltd and Bijli Investments Private Ltd, is the largest multiplex cinema operator by number of screens. PVR was incorporated in 1995 pursuant to a JV agreement between Priya Exhibitors Private Ltd. And Village Roadshow Ltd., one of the largest non-US cinema exhibition companies in the world with more than 1,000 screens. The company has a strong management team, drawn from film exhibition, consumer retailing and the hospitality industry. It set up the first multiplex cinema in India, PVR Anupam (with four screens), in 1997 and since then has grown to 10 cinemas with 39 screens as on 30 September 2005. The strategy in film exhibition business is to have national footprint and it plans to launch 18 new cinemas with 82 screens by FY08E by when it will have 28 cinemas with 121 screens. PVR also operates a film distribution business through its wholly-owned subsidiary, PVR Pictures, which acquires and distributes international film. The strategy in the distribution business is to distribute Hindi films in the same territories where PVR's cinemas are located, and to purchase the entire suite of distribution rights for international films on an all India basis.

Investment Arguments

- Strong promoter-cum-management team which is focused on film exhibition
- Business with strong tailwind
- Proven past performance
- "Material" intangibles like strong relationships within the film industry and strong brand equity
- Uniform operational process and training
- Scalable business and high growth visibility

PVR reported a PAT of Rs36.5m and Rs38.7m in FY05 and 1HFY06, respectively. Given its aggressive plans and massive potential, we expect strong growth in profitability in FY06, FY07, and FY08 and beyond. Considering the expansion in screens and the fiscal benefits associated with the expansions, the company can do an EPS of Rs13 and Rs19.8 in FY07E and FY08E respectively. At the upper end of the price band, the stock is available at 18.5x FY07E and 12x FY08E EPS. Given its strong growth potential and premium position in its sector, we expect the P/E multiples to remain high. We recommend **Subscribe.**

Sachin Abhyankar (SachinAbhyankar@MotilalOswal.com); Tel: +91 22 39825422

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IPO details

PVR is proposing to issue 7.7m equity shares (consisting of fresh issue of 5.7m shares and offer for sale of 2m shares by ICICI venture fund) to the public. The price band ranges between Rs200-240 per share, on the basis of which the maximum issue size amounts to Rs1.85b. The current issue will constitute 33.66% of the fully diluted post-issue of the company. Promoter holding will fall to 40.44%, post-issue.

The objects of the Issue include raising capital to finance new cinema projects, expanding the film distribution business, financing technological upgradation and renovation of cinemas, apart from enhancing the visibility and brand name.

The Issue

Issue:	7,700,000 Equity Shares
Which Comprises:	
Fresh Issue:	5,700,000 Equity Shares.
Offer for Sale by the Selling Shareholder:	2,000,000 Equity Shares.
Total	**7,700,000 Equity Shares.**
Of which:	
Promoter's Contribution:	300,000 Equity Shares
Reservation for Employees	Up to 150,000 Equity Shares
Net Issue to the Public	**7,250,000 Equity Shares**
Of which:	
Qualified Institutional Buyers Portion:	Up to 3,625,000 Equity Shares (allocation on proportionate basis), out of which 5% of the QIB Portion or 181,250 Equity Shares (assuming the QIB Portion is 50% of the Net Issue) shall be available for allocation on a proportionate basis to Mutual Funds only (Mutual Funds Portion), and 3,443,750 Equity Shares (assuming the QIB Portion is 50% of the Net Issue) shall be available for allocation to all QIBs, including Mutual Funds.
Non-Institutional Portion:	At least 1,087,500 Equity Shares (allocation on proportionate basis).
Retail Portion:	At least 2,537,500 Equity Shares (allocation on proportionate basis).
Equity Shares Outstanding Prior to the Issue:	17,177,370 Equity Shares.
Equity Shares Outstanding After the Issue	22,877,370 Equity Shares.

Investment Arguments

Strong promoter-cum-management team which is focused on film exhibition

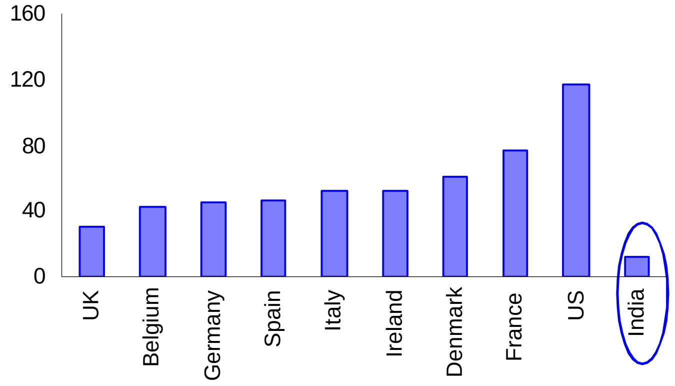
Mr. Ajay Bijli, CMD and one of the promoters, is a pioneer in the Multiplex Cinema business in India with over 15 years of experience in the film exhibition sector. Film exhibition continues to be his focus area. The management team, led by Mr. Bijli and Mr. Sanjeev Kumar, ED, has demonstrated its ability to think ahead of competition and remain innovative. The current executive management team has a blend of film exhibition and hospitality industry experience and professional expertise drawn across different industries. Some of key employees have received formal training at cinemas in Australia and Singapore operated by Village Roadshow.

Mr. Bijli was awarded with the 'Theatre World Newsmaker of the Year Award for 2003' at FRAMES 2004, a global convention on the business of entertainment organized by FICCI. In 2004, CineAsia, a prominent Asian film industry convention, gave him a special award for his significant contribution to India's Multiplex Cinema segment. He was recognized as "Entrepreneur of the Year – Entertainment" by the Indian Retail Forum held in Mumbai in September 2005 and "Delhi Ratna" by the PHD Chamber of Commerce and Industry in August 2005.

Business with strong tailwind

In India, the number of screens per million of population is just 12 whereas the average in most western countries is approximately 40. A UNESCO study estimated that India needs 20,000 screens to cater to the entire cinema viewing population. Reproduced below is a table showing the number of cinema screens per million people in select countries.

SCREENS PER MILLION POPULATION



Source: The Indian Entertainment Industry – FICCI 2001 & CII – KPMG Report 2005 (UNESCO 2001).

In India, films are exhibited by single-screen stand-alone theaters or multiplexes. We believe that multiplexes offer more economic advantages than single-screen theaters. The key economic advantages are:

- Better occupancy ratios
- Greater number of shows
- Better exploitation of a movie
- Better cost management

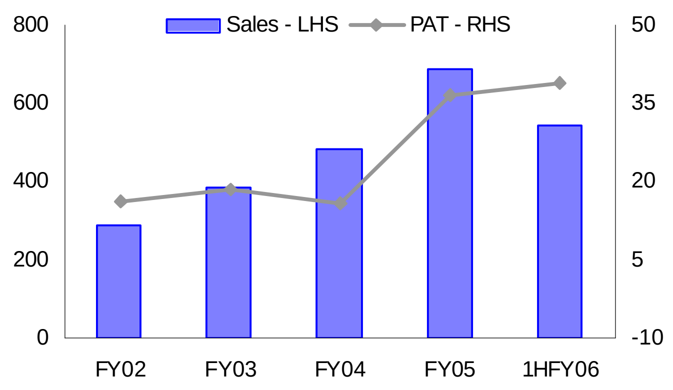
Despite the significant advantages of multiplex cinemas, the percentage of cinema screens that are in multiplexes in India is negligible. Of an estimated 12,900 active screens, over 95% are stand-alone, single-screens. We believe that, in future, growth in multiplexes will be far higher than single-screens because of economic advantages to the exhibitor and the following growth drivers for the multiplexes:

- An increase in disposable income in the hands of an ever expanding Indian middle class;
- Favorable demographic changes;
- Organized retail boom;
- Entertainment tax benefits for Multiplex Cinemas; and
- Increase in the number of high-grade Hindi films.

Proven past performance

The company has consistently shown growth in revenue and profitability.

SALES AND PAT (RS M)

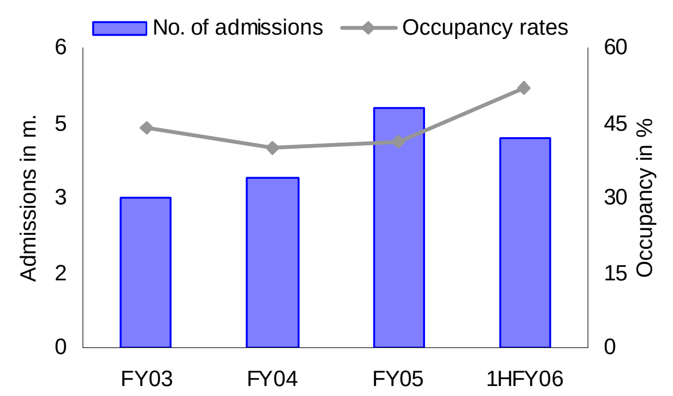


Source: Company RHP

The company earns revenues from five primary sources: (1) box office; (2) food and beverages; (3) advertisements; (4) royalty income and (5) management/franchise fees. Box office, advertisements and concession contributes 65-66%, 8-10% and 20-22%, respectively, to total revenues.

Its revenue model is structured in a manner that even at 30-35% occupancy rate it is able to breakeven. For FY05, the occupancy rate was up from 39.9% to 41.1% and the annual number of admissions increased to 4.8m from 3.4m. For H1FY06, the occupancy rate was 52% with the number of admissions touching 4.2m.

ADMISSIONS AND OCCUPANCY RATE



Source: Company RHP, MOSL

Occupancy rate is very sensitive to ticket pricing. If rates come down, occupancy goes up but if rates are brought down dramatically then aspiration value, too, will come down, leading to decrease in occupancy rates. Hence, pricing of tickets has to be done very carefully. PVR has been able to get the balance right so far.

"Material" intangibles like strong relationship within the film industry and strong brand equity

PVR is the largest Multiplex Cinema operator in India with transparency in reporting box office collections and with an emphasis on film marketing. It has strong relationships within the film industry, both Indian and Hollywood, enabling the company to obtain an assured supply of films at competitive rates.

The brand PVR is one of India's most recognized film exhibition brands. The brand equity comes by virtue of its emphasis on ambience and customer delight. The brand has become synonymous with high quality cinema viewing in Delhi, Gurgaon, Faridabad, Ghaziabad and Bangalore. This has positioned it as an exhibitor of choice for movie patrons, enabling it to maintain stable occupancy rates at ticket prices that are significantly higher than the industry average.

The strong brand equity has also allowed it to enter into corporate alliances and co-marketing exercises with leading companies such as Pepsi, Samsung, Hero Honda, Hyundai, LVMH, Airtel, Master Card, LG Electronics, Nokia, Seagram, General Motors, Hindustan Times and Lipton.

PVR is considered a preferred anchor tenant by shopping mall developers because of its ability to generate 40-50% more footfalls. Its presence in a mall helps the developer to market the mall to other retail businesses. As a result, the company is able to obtain prime locations for its Multiplex Cinemas on attractive terms.

Uniform operational process and training

The company has uniform operational systems, processes and staff training procedures, which enables it to replicate high operating standards across all its cinemas. This emphasis,we believe, will help it replicate the same operating standards across all future cinemas too.

The company uses Vista software, which is used worldwide, across all its cinemas, to capture box office sales, food and beverage sales and sale of tickets on the internet. It also uses the same cash and inventory control systems, and procedures for film scheduling, contracting, advertising and management for all its cinemas. Usage of technology and uniform process, increases transparency, reduces leakages and helps in developing stronger relationships with film producers and film distributors.

Scalable business and likely very high growth

PVR plans to increase its cinemas and screens. By 2008, it would open 18 cinemas with 30 screens in Mumbai and 52 screens in Ludhiana, Indore, Aurangabad, Latur, Hyderabad and Chennai.

EXPANSION PLANS

PARTICULARS	FY05	FY06E	FY07E	FY08E
No. of Screens	39	76	112	121
No. of Seats	8,540	17,822	28,111	30,611

Source: Company RHP

We believe, due to tail winded business dynamics and PVR's competitive advantages, it will continue to grow at a brisk pace beyond FY08E. In addition, its existing cinemas, too, will continue to grow. In 1HFY06, same cinema growth was c.10%.

Investment Concerns

There is execution risk in launching 18 cinemas and 82 screens in the next 30 months. The company set up only 10 cinemas and 39 screens since opening its first multiplex in 1997.

There is a risk due to change in projection technology. Digital projection (likely in future) will render existing capital expenditure on traditional celluloid projection non-remunerative.

Heightened competition: Success of multiplexes is attracting a number of new players. If the new multiplexes are not launched after a careful examination of location and catchment areas or launched in close vicinity of existing multiplexes, it could be detrimental to both new as well as older multiplexes.

Valuation and View

PVR reported a PAT of Rs36.5m and Rs38.7m in FY05 and 1HFY06, respectively. Given its aggressive plans and massive potential, we expect strong growth in profitability in FY06, FY07, and FY08 and beyond. Considering the expansion in screens and the fiscal benefits associated with the expansions, the company can do an EPS of Rs13 and Rs19.8 in FY07E and FY08E respectively. At the upper end of the price band, the stock is available at 18.5x FY07E and 12x FY08E EPS. Given its strong growth potential and premium position in its sector, we expect the P/E multiples to remain high. We recommend **Subscribe.**

INCOME STATEMENT				(RS MILLION)
Y/E MARCH	2003	2004	2005	1H2006
Net sales	**383**	**482**	**686**	**543**
Change (%)		*25.6*	*42.5*	
EBITDA	**66**	**68**	**112**	**98**
Change (%)		*2.9*	*63.7*	
Depreciation	30	38	55	33
EBIT	**36**	**30**	**56**	**65**
Interest	19	19	24	16
Other income	10	16	20	14
PBT & EO items	**27**	**26**	**53**	**62**
PBT	**27**	**26**	**53**	**62**
Tax	9	11	16	24
Rate (%)	*33.2*	*40.7*	*30.8*	*38.0*
PAT	**18**	**16**	**36**	**39**
Change (%)		*-14.7*	*133.8*	
EBITDA margin (%)	*17.3*	*14.1*	*16.2*	*18.1*
PAT margin (%)	*4.8*	*3.2*	*5.3*	*7.1*

BALANCE SHEET				(RS MILLION)
Y/E MARCH	2003	2004	2005	1H2006
Equity share capital	102	133	171	172
Preference Capital	0	0	0	200
Reserves	107	177	361	405
Miscellaneous Exp.	5	11	5	8
Networth	**203**	**300**	**526**	**769**
Loans	245	302	465	736
Net deffered tax liability	26	35	43	45
Capital employed	**474**	**637**	**1,034**	**1,550**
Gross fixed assets	317	481	829	848
Less: Depreciation	74	112	159	191
Net fixed assets	**243**	**369**	**670**	**658**
Capital WIP	141	120	178	631
Investments	0	5	12	27
Curr. assets	**202**	**233**	**331**	**475**
Inventory	4	3	7	7
Debtors	5	26	25	39
Cash & bank balance	97	26	95	183
Loans & advances	97	177	203	245
Other Current Assets	1	1	1	1
Current liab. & prov.	**112**	**90**	**156**	**241**
Net current assets	**90**	**143**	**175**	**234**
Application of funds	**474**	**637**	**1,034**	**1,550**

E: Estimates

RATIOS				
Y/E MARCH	2003	2004	2005	1H2006
Basic (Rs)				
EPS	**1.8**	**1.2**	**2.1**	**2.3**
Growth (%)		*-34.9*	*82.0*	
Cash EPS	4.8	4.1	5.4	4.2
Book value	19.5	21.7	30.5	44.3
Valuation (x)				
P/E	133.2	204.7	112.4	106.5
Cash P/E	50.1	59.1	44.8	57.2
Price/Book value	12.3	11.1	7.9	5.4
EV/Sales	13.1	7.2	6.5	8.6
EV/EBITDA	75.8	50.9	40.0	47.4
Profitability ratios (%)				
RoE	9.0	5.2	6.9	5.0
RoCE	7.8	5.5	5.8	3.5
Turnover ratios				
Debtors (days)	5	20	13	26
Asset turnover (x)	0.8	0.8	0.7	0.4
Leverage ratio				
Debt/Equity (x)	1.2	1.0	0.9	1.0

CASH FLOW STATEMENT				(RS MILLION)
Y/E MARCH	2003	2004	2005	1H2006
PBT before EO items	**27**	**26**	**53**	**62**
Add : Depreciation	30	38	55	33
Interest	19	19	24	16
Less : Direct taxes paid	9	11	16	24
(Inc)/Dec in WC	6	-123	37	29
CF from operations	**74**	**-50**	**153**	**117**
EO, misc. & other items	0	0	0	0
CF from oper. incl. EO iten	**74**	**-50**	**153**	**117**
(Inc)/Dec in FA	-414	-143	-414	-474
(Pur)/Sale of investments	0	-5	-7	-15
CF from investments	**-414**	**-148**	**-421**	**-489**
Inc/(Dec) in networth	212	89	198	206
Inc/(Dec) in debt	245	58	163	271
Less : Interest paid	-19	-19	-24	-16
Dividend paid	0	0	0	0
CF from fin. activity	**437**	**128**	**337**	**460**
Inc/Dec in cash	**97**	**-70**	**69**	**88**
Add: Beginning balance	0	97	26	95
Closing balance	**97**	**26**	**95**	**183**

N O T E S

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Phone: (91-22) 39825500 / 56575200 Fax: (91-22) 22816161. E-mail: inquire@motilaloswal.com

Disclosure of Interest Statement	**PVR**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

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